Management Employees Pension Plan

MEPP

2000 Annual Report

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Pension and investment terms are defined in the Glossary on page 40

ISSN: 1208-0365
Published by the Management Employees Pension Board

Edmonton, Alberta
March 2001

A Profile of the Management Employees Pension Plan

- MEPP is a contributory defined benefit pension plan established in 1972 for managers within the provincial public service and approved agencies, boards and commissions.
- A unique feature of the Plan is that the employer participates in the Public Service Pension Plan (PSPP) for its non-management staff. There is some movement between PSPP and MEPP due to job changes with the same employer. To deal with this, the concept of "combined pensionable service" was introduced in 1994.
- The Plan serves 3,373 active members, 861 deferred members, 1,329 pensioners and 21 employers.
- The Plan is financed by employee and employer contributions and investment earnings.
- The Investment Management Division of Alberta Treasury manages all funds through a diversified investment portfolio of bonds, domestic and foreign equities, money market securities and mortgages.
- The Plan is administered by Alberta Pensions Administration (APA) Corporation.
- The net assets of the Plan available for benefits were $1.6 billion as at December 31, 2000.

Management Employees Pension Board

Front row *(left to right): Dianne Keefe (Chair), Theresa Ostrum*
Back row *(left to right): Shirley Howe, Bill Lenius, Fred Barth, Tony Morehen (Vice-Chair)*

Structure

The Management Employees Pension Board advises the Provincial Treasurer on all aspects of the management of the Plan. The Board has seven members, including three employee nominees three government nominees and one Public Service Commissioner nominee.

Responsibilities

The Board advises the Provincial Treasurer on policy guidelines for the investment management and the administration of the Plan. The Board is also responsible for:

- setting general policy guidelines for the investment and management of the Plan's assets;
- recommending contribution rates to fully fund past and current service;
- arranging an actuarial valuation at least once every three years; and
- reviewing administration decisions and ensuring the Plan is effectively administered.

Members of the Board – 2000

Employee Nominees

Tony Morehen, **Vice-Chair**
Theresa Ostrum
Bill Lenius

Government Nominees

Dianne Keefe, **Chair**
Fred Barth
Vacant

Public Service Commissioner Nominee

Shirley Howe **(Non-voting)**

Message from the Chair

Dianne Keefe, Chair

On behalf of the Board, it is my pleasure to provide an overview of the major activities of the Board and events affecting the Management Employees Pension Plan (MEPP) in 2000. I also draw to your attention the Discussion and Analysis section of the Report on pages 6 through 14, which reviews current financial results, the position of the Plan and future prospects.

Governance

Early in 2000, the Board met with representatives of the Provincial Treasurer to clarify its role in the governance of the Plan. The discussions assisted the Board in clarifying advisory and decision-making responsibilities.

The Treasurer has also requested that the MEPP Board assume advisory responsibilities for the Supplementary Retirement Plan commencing in 2001.

Reduction in Nortel Exposure

The Board members were concerned about potential risks associated with Nortel's weight in the portfolio. In the spring of 2000, the Board reaffirmed its earlier policy decision to reduce Nortel exposure by limiting any one stock to 10% of total equities.

Investment Committee

The Board established an Investment Committee to advise the Board on investment policy, investment management and performance measurement. The Investment Committee is made up of two Board employees and two experienced investment advisors from industry. Mr. Ladis Vegh and Ms. Tania Willumsen were appointed as members of the Investment Committee.

Investment Performance

The Plan achieved an 8.2% return in 2000, exceeding the benchmark by 120 basis points.

Asset/Liability Study

The Board commissioned an asset/liability study to assess the longer-term financial prospects for the Plan. As a result of the study, the Board concluded, after consultation with its Investment Committee, that the target asset mix policy be changed from 55% equities and 45% fixed income to 60% equities and 40% fixed income. The Board also gave the Investment Management Division (IMD) of Alberta Treasury the authority to take advantage of the higher foreign content rules announced by the federal government in its February 2000 budget.

Contribution Rates

The Plan's actuary completed an actuarial valuation as of December 31, 1999. The Plan's unfunded liability has been eliminated. However, the valuation shows that current service costs have increased to 18.7% of pensionable salary. In August 2000, the Government of Alberta accepted the Board's recommendation that the MEPP current service rates of 7.75% of pensionable salary for employees and 10.75% for employers be effective from January 1, 2000, with the balance funded from the surplus. This meant that there were no refunds for over-contributions in 2000 to cover the unfunded liability – in effect, overall contribution rates for employees and employers remained unchanged.

Elimination of Re-Employment Rules

Effective January 1, 2001 the government removed the re-employment restrictions that were previously in effect. This gives pensioners more opportunities to return to the workforce and employers greater flexibility to recruit qualified candidates in a tight labour market.

APEX Project

In early 2000, Alberta Pensions Administration (APA) Corporation began re-evaluating a corporate project called "APEX" to replace and enhance a number of legacy computer systems and improve on current processes over the next three years. The replacement of the legacy pension administration system has the full support of the Board, which provided its approval in early 2001 to participate in the project. The successful implementation of the new pension administration system will provide better service to Plan employees, employers and retirees in the years to come.

Board Membership

The Board is comprised of seven members, including three employee nominees and three government nominees. The Public Service Commissioner is represented on the Board through a non-voting nominee. During 2000, the Board operated without the benefit of one government nominee.

On behalf of the Board, I would like to acknowledge the contributions of employee representative Tony Morehen, who ended his term on December 31, 2000, after four years of service on the Board.

I am pleased to welcome our new Board employees, Ms. Gail Armitage and Ms. Nancy Bochard. Ms. Armitage, our new employee representative, is Superintendent of Pensions and oversees the private pension system in Alberta. Ms. Bochard, an employer representative, is Manager, Total Compensation for Finning (Canada) and brings many years of pension and related experience to the Board.

On behalf of the Board, I would like to express our appreciation to APA, the Investment Management Division of Alberta Treasury and the Board's actuary for their respective contributions in assisting the Board in 2000.

Dianne Lougheed Keefe

Dianne Lougheed Keefe
Chair
Management Employees Pension Board

Management Discussion and Analysis

This section discusses the Plan's financial performance during 2000 and reviews the Plan's investment management and administration.

The Board's Responsibilities

The MEPP Board acts as an advisor to the Provincial Treasurer in all matters relating to the Plan and has the general power to communicate what the Board believes should be brought to the Minister's attention. In particular, the Board makes recommendations to the Minister on the guidelines for the investment of the funds and the administration of the Plan, and hears appeals of administrative decisions about individual members' pensions. The Board provides advice to the Minister regarding:

- any changes the Minister intends to make to the administration of the Plan;
- changes to the Plan provisions set out in rules;
- the results of an actuarial valuation of the Plan at least every three years;
- Plan rule changes, or adjusting the employee or employer contribution rates for current service to ensure funding meets solvency requirements; and
- proposed ammendments to the Public Sector Pension Plans (Legislative Provisions) Regulation.

The legislation states that the Board's responsibilities for the Public Service Management (Closed Membership) Pension Plan (Closed Plan) are the same as for MEPP. The Closed Plan was established in 1992 to pay pensions for MEPP members who attained 35 years of pensionable service, retired from the previous MEPP, or ceased to participate in the previous MEPP prior to 1992.

Funding for the Closed Plan is the responsibility of the Government of Alberta as all MEPP pensions on service prior to pension reform in 1992 were guaranteed by the Government.

The Board has reviewed and approved the Closed Plan's 2000 financial statements, which are published in the Treasury annual report.

Contribution Rates

For both employees and employers, MEPP contribution rates are higher than those of most other Alberta public sector pension plans. MEPP employers pay a significantly higher portion of the contributions than employees (10.75% vs 7.75%). With most other Alberta public sector plans, the contributions are more equally shared between the employees and the employer.

MEPP rates need to be higher to pay for enhanced benefits such as:

- Pension of 2% of the highest five years' average salary for every year of pensionable service. Most other Alberta public sector pension plans are integrated with the Canada Pension Plan to some degree.
- Early retirement with an unreduced pension. To be eligible, MEPP members only need be at least age 55, with age and service totaling 80 — it's 85 for most other plans.
- The normal form of MEPP pension is not reduced for employees with spouses at retirement. Some other plans have joint-life options that require reductions in the monthly payments depending upon the employees and spouse's age at retirement.

Contribution Rate Changes

At the time of pension reform in 1993, MEPP, like other Alberta public sector pension plans, was under-funded. To fund the shortfall, surcharges were assessed on pensionable salaries at a rate of 0.75% for employees and 2.75% for employers. It was projected that the additional contributions and investment income would pay off the unfunded liability by the year 2043.

In addition to surcharges, employees and employers paid current service contributions towards the ongoing cost of the Plan. The current service contribution rates in effect since 1996 have been 7% of pensionable salary for employees and 8% of pensionable salary for employers, for a total of 15%. Combined with the surcharges, employees and employers paid 18.5%.

The December 31, 1999 actuarial valuation determined MEPP's unfunded liability was paid off at the end of 1999 – 44 years earlier than expected. As a result, the surcharges were eliminated. MEPP's actuary confirmed that the Plan's required contributions have increased due to the average age of Plan members rising from 42 years in 1994 to 48 years in 1999.

The net effect of the elimination of the surcharges and the increased cost of the Plan resulted in the overall contribution rates for employees and employers remaining unchanged from the previous year.

For the future, prudent management of the Plan requires that the level of contributions be re-assessed regularly to ensure current benefit levels are sustainable in the years ahead.

Consideration of Benefit Changes

In the past two years, several Alberta public service pension plans introduced two-year vesting and the payment of commuted value on all service on termination, which are in line with provisions for private sector pension plans. The Board consulted with the Government of Alberta and concluded that the cost of these changes for MEPP may not be sustainable over the near-term unless contribution rates increase. The Board will re-assess such changes on a regular basis in the future.

Supplementary Retirement Plan

MEPP members whose salary exceeds the salary "cap" ($86,111 in 2000) established by the federal *Income Tax Act*, are eligible to participate in a Supplementary Retirement Plan (SRP), if their employer is participating in the SRP. Established in July 1999, the SRP will provide a 2% pension on salaries above the "cap" and the pensions provided will be fully funded.

The Board had no direct involvement in the SRP in 2000. Nonetheless, for the ease of reporting to members the SRP's 2000 financial statements are presented on pages 33 through 39.

2000 Plan Statistics

The following tables provide statistical information on MEPP participation and retirement levels for 2000. Statistics from 1999 are shown for comparison.

Participation in the Plan

	2000	1999
Active Members	3,373	3,003
Deferred Members	861	1,032
Pensioners	1,329	1,183
Total	**5,563**	**5,218**

New Pensioners

	2000	1999
Retirements*	11	5
Early Retirements	132	126
Disability Retirements	1	-
Death Benefits to Spouses	2	5
Total	**146**	**136**

*At age 60 or with the 80 factor.

New Pensioner Retirement Choices

	2000	1999
Single Life	5	6
Normal	120	112
Guaranteed Term	21	17
Total	**146**	**135**

Monthly Payment Distributions

as at December 31, 2000

Dollar Value ($) Per Month	Member Pensions	Spouse's Pensions	Total
1 to 999	120	7	127
1,000 to 1,999	248	17	265
2,000 to 2,999	348	10	358
3,000 to 3,999	385	1	386
4,000 and over	193	0	193
Total	**1,294**	**35**	**1,329**
Average pension in 2000:	**$ 33,733**		

Expenses

In 2000, MEPP's expenses included general administration costs, investment costs and actuarial fees totaling $134 per employee, compared to $139 per employee in 1999.

Seven-Year Plan Summary

A seven-year summary of relevant Plan information is included in the table on page 43.

Board's 2000 Objectives and Strategies

The Board's mission is "to provide prudent governance of the Management Employees and Closed Pension Plan funds and cost-effective timely services to members and retirees." In its role as an advisory Board to the Provincial Treasurer, the Board oversees the actions of the Plan's administrator (Alberta Pensions Administration Corporation) and investment manager (Investment Management Division, Alberta Treasury) on behalf of Plan members.

In 2000, the Board had four major goals:

1. Strengthen the Board's role in investment management through the establishment of an investment committee with outside members.

   The newly-formed Committee held its first meeting on November 17, 2000 with two independent members.

2. Conduct an asset/liability study to assess the long term financial prospects for the Plan. Such studies, while imperfect, can assist plan trustees in assessing the risks associated with meeting liabilities in the future, estimating future contribution rates and indicating the potential affordability of benefit changes.

   Key reasons for the Board to conduct this study were:

   - to assess the sustainability of the surplus reported at the end of 1999;
   - to assess the long-term prospects for the Fund and to assess if the Board should take advantage of the *Income Tax Act's* increase in the foreign content limit from 25 to 30%;

- to assess the impact to the Fund following the withdrawal of Alberta Treasury Branches' managers at the end of 1998;
- to determine the percentage of the Fund to be invested in various asset classes;
- to determine an appropriate balance between domestic and foreign equities; and the ratio of foreign equities between U.S. and non-North American issues;
- to determine how the bond portfolio should be structured, given the nature of the Plan's liabilities; and
- to update the Board's investment policy.

After reviewing the results of the asset/liability study, the Board requested its investment manager proceed with implementing the following interim changes on a practical opportunistic basis:

- change the overall asset mix from 55% equities and 45% fixed income to 60% equities and 40% fixed income;
- increase foreign content to 30% on January 1, 2001, with an approximate split of 50% US and 50% EAFE (non-North American);
- the Investment Management Division (IMD) of Alberta Treasury will make a recommendation to the Investment Committee on the benchmarks to be used for 2001; and
- discretion should be left to the managers to invest in Emerging Markets on an opportunistic basis up to 5%.

A revised investment policy based on the results of the Asset/Liability Study will be considered by the Investment Committee in early 2001 and be presented to the Board for approval by mid-2001.

To reduce the volatility of investment returns associated with the concentration of holdings in any one security, the Board has changed its policy regarding single security holdings to be a maximum of 10% of an asset class instead of 10% of total equities.

3. Review the Board's governance role and clarify the Board's role with the government.

   MEPP legislation specifies that the Board's responsibilities are advisory in nature. In early 2000, the Board undertook a review of its governance role in response to the current emphasis on this topic by governments, pension regulators and the courts. The Board met with senior Government of Alberta representatives and gained a clearer understanding of the Government's expectations of the Board. It was concluded that the present governance model should serve the needs of both Plan members and employers. The Board will conduct annual reviews of its activities in the context of current principles of best practices being espoused for boards of trustees in Canada.

4. Review and update the Board's Code of Conduct.

   The revised Code of Conduct brings the Board's policy current to other codes in North America.

Financial Condition

The Board requested its actuary to perform an extrapolation of liabilities as at December 31, 2000. The results are compared with previous years in the Seven-Year Plan Summary on page 43. Alberta's *Public Sector Pension Plans Act* requires that actuarial valuations be performed at least once every three years. Extrapolations are usually performed at the end of the intervening years.

The 2000 extrapolation shows that the actuarial surplus grew by close to $60 million in 2000 to $105 million for a funded ratio of 108%.

Investment Management

The assets of MEPP are held in trust by the Provincial Treasurer and invested solely for the benefit of the Plan's beneficiaries. The assets are invested according to the investment policies and guidelines of the Board. Day-to-day management of the assets is delegated to IMD.

Investment Objective

A key element in the financial health of the Plan is the ability of investments to grow to fund future pension promises to members. Investment policies have been developed and implemented so that assets selected will grow at least as fast as the liabilities.

To meet the needs of the Plan, it is expected that investments earn at least 4.0% more than inflation on a four-year moving average basis. While there may be individual years where this objective is not met, on a long-term basis the returns have more than exceeded the investment objective (see page 10). As a result, the funded status of the Plan has improved dramatically since 1994.

Investment Philosophy

A cornerstone of the Plan's investment philosophy is prudent fund management. The Board has adopted a policy to manage investment risk through diversification and quality constraints. Further, the focus of the Plan is on the long-term, with investment policies based on long-term historical relationships. However, investments with the greatest growth rate often experience the greatest volatility. A certain level of short-term volatility is therefore accepted to maintain longer term growth prospects. Policies have been adopted that take into consideration the liability structure of the Plan.

Implementation of Investment Policy

Investments are made through IMD, which provides a range of investment products and services that meet the current needs of the Plan. IMD operates on a scale sufficient that MEPP's cost of investing is very low in comparison to other investing organizations in Canada. The key to maintaining this relationship over time is investment performance and satisfaction with the service provided by IMD. Each product provided by IMD and the overall fund performance are measured against a clearly defined market benchmark. Performance is reviewed quarterly, with emphasis on the one-year and four-year time periods.

Change in Asset Allocation

The Board's key policy decision is the asset allocation. This means choosing the allocation to various types of investments, such as fixed income (bonds), Canadian equities (stocks) or non-Canadian equities.

During 2000, the asset allocation policy was reviewed in light of the changes to the foreign content limit established under the federal *Income Tax Act* and funding requirements of the Plan. The Board authorized an increase of overall equity exposure from 55% to 60% to be effective January 1, 2001.

The non-Canadian equity exposure is expected to reduce the risk profile of the Plan by increasing the overall diversification of the Plan's equity investments. The Canadian equity market suffers from both concentration of a small number of companies in the market's capitalization and a heavy focus on a few industry groups. Investing outside of Canada increases the investment opportunity and results in a more diversified portfolio. Within the foreign equity component, specific allocations were made to the US and to other international equity markets.

The Board fine-tuned the fixed income exposure, increasing the exposure to real return bonds. This improved the overall risk return trade-off of the Plan. In 2000, the Board maintained its policy of limiting the exposure of the Plan with a single issue to 10% of total equities. As a result, the Plan was able to benefit from a significant portion of the appreciation of Nortel but avoided becoming over-exposed as more and more of the market became concentrated in Nortel. In early 2001, the Board refined its policy to require that any single security be limited to 10% of an asset class.

With the new asset allocation, effective January 1, 2001, the benchmarks, chosen by the Board in consultation with IMD, provide a performance standard against which the performance of the Board's investments can be measured.

Asset Allocation (%)
as of December 31, 2000

	2000 Target Policy	Actual Asset Mix 2000	Actual Asset Mix 1999
Fixed Income			
Cash & Short-term	2.0%	2.3%	0.9%
Long-term	38.0%	35.6%	35.9%
Real Return Bonds	5.0%	4.2%	2.8%
Total	**45.0%**	**42.1%**	**39.6%**
Equities			
Canadian	30.0%	30.3%	34.2%
United States	12.5%	13.6%	10.5%
International	12.5%	14.0%	15.7%
Total	**55.0%**	**57.9%**	**60.4%**

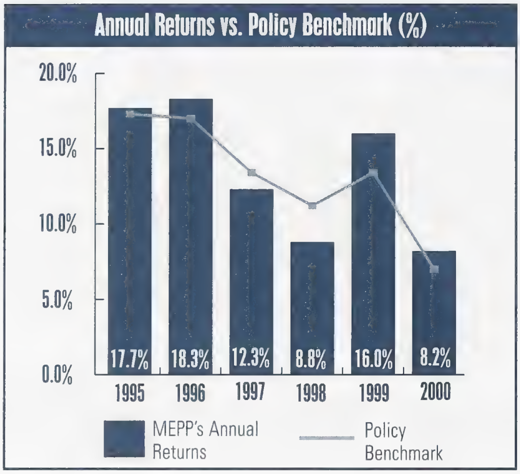
2000 Investment Performance

For 2000, the Plan's investment performance was 8.2%, which is 120 basis points above the benchmark of 7.0%. On a four-year average basis, the Plan returned 11.3%, compared with the benchmark of 11.2%. Assets under management on December 31, 2000 were $1,551 million, $105 million greater than 1999.

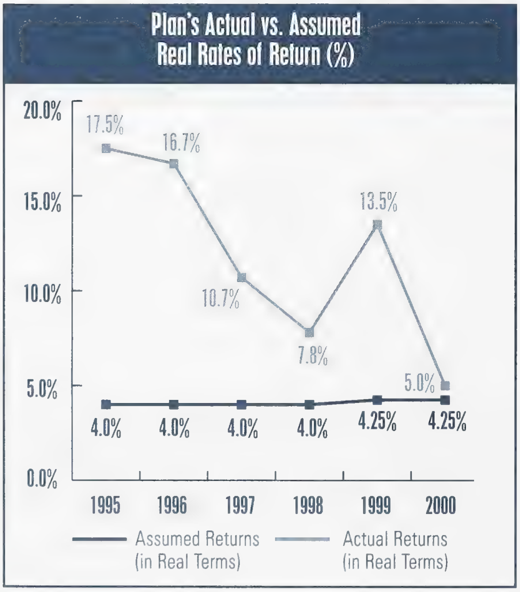
New Asset Allocation (%) as of January 1, 2001

	Benchmark	Policy Weight	Minimum	Maximum
Fixed Income				
Money Market Securities	SC 91-day T-Bill Index	2%	0%	5%
Fixed Income Securities	SC Bond Universe Index	33%	28%	38%
Real Return Bonds	SC Real Return Bond Index	5%	4%	6%
Total Fixed Income		**40%**	**35%**	**45%**
Equity				
Canadian	TSE 300 capped index	30%	25%	35%
Foreign		30%	25%	35%
United States	S&P 500 Index	15%	10%	20%
EAFE	MS EAFE Index	15%	10%	20%
Total Equity		**60%**	**55%**	**65%**

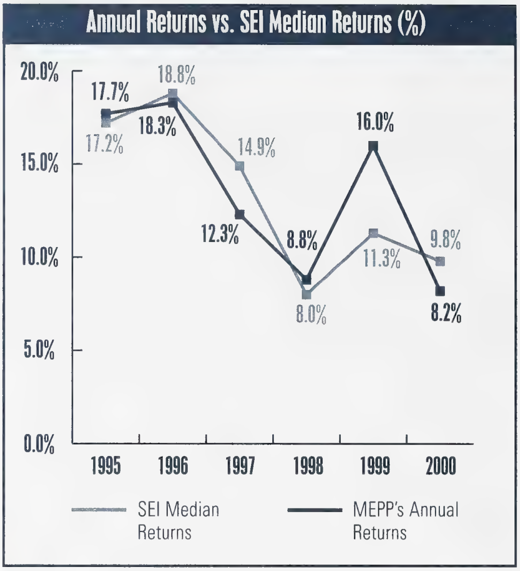
The following chart shows MEPP's 1995 to 2000 nominal investment returns versus the policy benchmark.



This chart shows the long-term Asumed Rate of Return for the Plan after inflation versus the Actual Rate of Return experienced from 1995 to 2000.



The following chart shows a comparison between MEPP's annual returns and SEI Canada's Median return for pension plans before adjustments for inflation.



In terms of value added, there was modest value added in fixed income and foreign equities while the bulk of the value added was achieved through strong performance in the Canadian equity component.

Overall investment returns in 2000 were substantially lower than in 1999. The key driver was generally poor equity performance in nearly all equity markets. Canada was the only major equity market that managed a positive return for 2000. Poor U.S. and other international equity performance in 2000 was partially offset by strong performance in fixed income markets, particularly longer term bonds and real return bonds. The Plan met its long-term objective over the one- year period. It has more than met that objective over the last seven years.

The following tables show the Plan's returns by asset allocation, along with respective performance measures (benchmarks):

Annual Return (%)	2000	1999	1998	1997
Total Plan	**8.2**	**16.0**	**8.8**	**12.3**
Policy Return	7.0	13.4	11.1	13.4
Short-term fixed income	**5.7**	**5.3**	**5.0**	**3.6**
SC 91-Day T-Bill Index	5.5	4.7	4.7	3.2
Long-term fixed income	**10.8**	**-1.0**	**9.3**	**9.6**
SC Universe Bond Index	10.2	-1.1	9.2	9.6
Real Return Bonds	**16.7**	**8.1**	**6.1**	**4.6**
SC Return Bond Index	16.6	8.0	6.0	4.7
Canadian Equities	**19.0**	**28.9**	**-4.0**	**14.7**
TSE 300 & TSE 299	16.4	31.7	-1.6	15.0
Foreign Equities	**-9.0**	**28.7**	**25.6**	**15.2**
MSCI World Index	-10.2	18.1	33.5	20.9

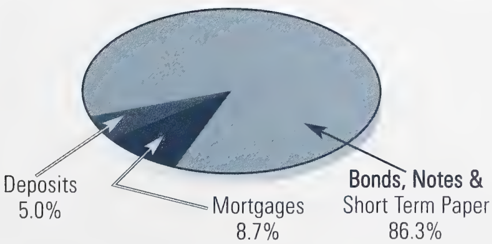
	Compound Annualized Return (%)				
	1 yr	2 yr	3 yr	4 yr	8 yr
Total Fund	**8.2**	**12.1**	**10.9**	**11.3**	**12.4**
Policy Return	7.0	10.1	10.5	11.2	12.5
Short-term fixed income	**5.7**	**5.5**	**5.3**	**4.9**	**5.7**
SC 91-Day T-Bill Index	5.5	5.1	5.0	4.5	5.2
Long-term fixed income	**10.8**	**4.8**	**6.2**	**7.1**	**9.2**
SC Universe Bond Index	10.2	4.4	6.0	6.9	9.0
Real Return Bonds	**16.7**	**12.3**	**10.2**	**8.8**	**n/a**
SC Return Bond Index	16.6	12.2	10.1	8.7	8.5
Canadian Equities	**19.0**	**23.9**	**13.8**	**14.0**	**17.1**
TSE 300 & 299 Index	16.4	23.8	14.7	14.8	16.4
Foreign Equities	**-8.7**	**9.0**	**14.2**	**14.5**	**14.6**
MSCI World Index	-10.2	3.0	12.3	14.4	15.9

Regarding specific investment results for 2000, the following charts provide summaries of holdings in Fixed Income, Canadian and Foreign Equity.

Fixed Income Investments

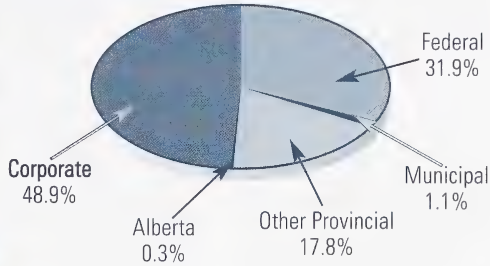
The fixed income component has allocations to bonds, mortgages, real return bonds and cash.

Summary of Fixed Income Holdings
(by security type)



Overall, fixed income slightly out-performed the benchmark. Within the fixed income component, bonds out-performed the benchmark, returning 10.75%, while mortgages returned 11.6% versus 10.2% for the Scotia Capital Bond Universe index bonds. Real return bonds out-performed, returning 16.7% versus 16.6%. Cash/short term returned 5.7% versus a benchmark of 5.5%.

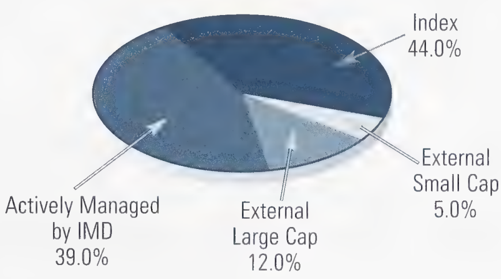
Summary of Fixed Income Holdings
(Issued and guaranteed by)



Canadian Equity Investments

The Plan invests in Canadian equities through several strategies, including both indexed and active mandates. During 2000 a new indexed strategy based on the TSE 300 excluding Nortel was introduced to manage the Plan's overall exposure to Nortel. This "excluding Nortel" strategy is managed directly by IMD alongside the TSE 300 index and core strategies. The large cap active strategy, which invests in companies with a large market capitalization, and the small cap active strategy are managed by third party (external) investment advisors.

Management Structure in Canadian Equities



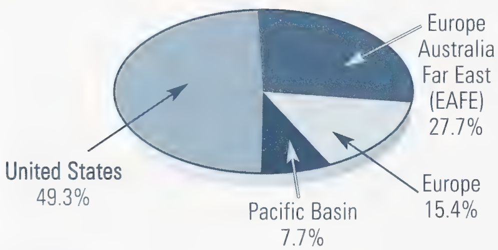
The total Canadian equity return was 19.0% versus 7.4% for TSE 300 index. The full TSE 300 index strategy is intended to replicate the return of the TSE 300 market index but in 2000 managed a modest out-performance, returning 8.0%. The IMD-managed core product returned 3.4%. Under-performance in this product was more than offset by the externally-managed products. The external large cap managers returned 17.6% and the small cap managers returned 14.9%, both well ahead of the TSE 300 index and the 7.3% return generated by the Nesbitt Burns small cap index.

MEPP'S Top 10 Canadian Equity Holdings December 31, 2000	
Company	**% of Holdings**
Nortel Networks Corp.	10.2
BCE Inc.	4.7
Bombardier Inc.	3.2
Royal Bank of Canada	2.8
Toronto-Dominion Bank	2.5
Manulife Financial Corp.	2.5
Sunlife Financial Services Inc.	2.1
Alcan Aluminum Ltd.	2.0
Celestica Inc.	1.8
Canadian Pacific Ltd.	1.8

Foreign Equity Investments

The foreign equity allocation was allocated equally to the U.S. and to non-North American equity markets.

Summary of Foreign Equity Holdings



U.S. Equities

The Plan's investments in the U.S. are allocated roughly half to index and half active strategies. A significant portion has been invested in the internally managed derivative product to manage exposure to foreign equity relative to the *Income Tax Act* limits. While these limits were increased in 2000 and on January 1, 2001, the derivative structures were retained given that foreign equity exposure has been increased.

After an exceptional five years, the Standard and Poor's 500 in Canadian dollar terms declined by 5.8%. Overall, MEPP's return on U.S. equities was -4.1%.

MEPP'S Top 10 US Equity Holdings December 31, 2000	
Company	**% of Holdings**
General Electric Co.	3.3
Citigroup Inc.	2.4
Pfizer Inc.	2.3
Exxon Mobil Corp.	2.2
Microsoft Corp.	2.1
Cisco Systems Inc.	1.7
American International Group Inc.	1.7
Merck & Company Inc.	1.6
Bristol Myers Squibb Company	1.4
SBC Communications Inc.	1.4

Non-North American Equities

The non-North American equity component includes an allocation to both developed and emerging markets. Roughly 25% is allocated to index-based strategies, with a portion in a derivative product to manage the exposure to foreign equity relative to the Income Tax Act limits. The remaining 75% (including all of the emerging market allocation) is allocated to third-party active managers.

The non-North American equity component had a difficult time this year, returning -12.7% compared to the MSCI EAFE index return of -11.2%. On a regional basis, the majority of losses came from the Pacific Basin. The MSCI Pacific index returned -23.3% while the MSCI Europe index returned -5.2%. From product perspective, active managers with the MSCI EAFE mandate under-performed, particularly in the Pacific Basin region, giving up some of the extraordinary gains made in 1999.

MEPP'S Top 10 International Equity Holdings December 31, 2000	
Company	**% of Holdings**
Vodafone Group	2.4
Nokia Corporation	1.7
Glaxosmithkline	1.7
Nestle	1.6
Total Fina Elf	1.5
HSBC Holdings	1.4
Novartis	1.4
BP Amoco	1.3
Alcatel	1.3
Roche Holdings Ltd.	1.2

Risk Mitigation in 2000

In early 2000, the Board reaffirmed its commitment to restrict the holding of any one equity issue to 10% of total equity holdings. The result was the creation of another Canadian equity fund with a cap on the holdings in Nortel. Because of timing, losses to the Plan in the final quarter of 2000 were minimized.

The use of derivative and synthetic securities is permitted for the purpose of managing risk, liquidity and transaction costs of the Plan, in a manner consistent with the overall investment policies and risk tolerance of the Plan and in accordance with the Alberta Treasury's derivative policy. Derivatives will not be used for speculative purposes. Limits applicable to underlying securities will apply equally to the derivatives related to such securities.

Plan Administration

Alberta Pensions Administration (APA) Corporation provides administration for MEPP by collecting contributions and keeping accurate and secure records, as well as paying benefits to pensioners and members who are leaving these Plans. APA provides Plan information to members and employers and supports the activities of the Board.

APA also administers the Public Service Management (Closed Membership) Pension Plan by paying benefits to pensioners who retired from MEPP prior to 1994.

APA is a provincial corporation guided by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. In total, APA services are used by 466 employers and approximately 130,000 active members and over 50,000 pensioners.

APEX Project

In February 2001, the Alberta Pensions Excellence (APEX) project for a new pension administration system got back on track after a year of re-evaluating options for a new system, updating business specifications for a Request for Proposal (RFP) and evaluating RFP bids.

The project team's evaluation of options in the second quarter of 2000 was independently confirmed through a global market scan by KPMG. Detailed business specifications were prepared for the RFP issued in October. In early 2001 the bids were evaluated and scored by the project team in consultation with representatives of the pension boards. Also, references of bidders' proposed project team managers and pension software were checked by William M. Mercer Ltd.

In February 2001, the MEPP Board confirmed its participation in the new pension administration system project and approved the expenditure of its share of the funding. The consortium of IBM Canada Ltd. and CPAS Systems Inc. was chosen as Integration Company and pension software provider, respectively, to take the project to completion. The project is expected to last up to 36 months and involve active participation by these companies, pension boards, employers and APA staff.

Risk Mitigation

To mitigate risk associated with operating APA's current system, the present computer system was upgraded to ensure there will be no disruption of service to customers until the new pension administration is fully operational.

APA also consolidated pension payroll systems and services within APA to reduce costs and mitigate risks associated with the service.

In terms of the APEX Project, the Office of the Auditor General reviewed the management structure for APEX and advised the Board that best practices are being followed in the administration of the project.

Measures Taken to Improve Performance

APA's performance suffered in late 1999 and early 2000, largely a result of a backlog that developed when a portion of APA's computer system was no longer available. The resulting backlog in service was overcome in May, 2000, helping performance measures to improve in the last nine months of 2000. The table below summarizes service measures and performance targets/results for the public sector pension plans administered by APA.

Surveys

Results of the annual Quantitative Service Measurement (QSM) survey of Canadian public sector pension administrators showed that APA continues to be one of the most cost-effective pension plan administrators of similar size. Service standards also compare favorably with other QSM participants.

Service Measure (for all Plans)	Performance Benchmark (Calendar Days)	Target %	Actual % 2000	Actual % 1999
Response to telephone inquiries	1 day from receipt	100	100	94
e-mail acknowledged	2 days from receipt	100	90	95
Pension estimates produced	5 days from receipt of completed application	100	86	89
Written enquires resolved or acknowledged	2 days from receipt	100	80	78
Optional service applications finalized	21 days from application	100	76	46
Termination payments finalized	21 days from date of completed choice	100	100	96
Pensioners receiving pension payment	30 days after retirement	100	91	94
Retirements finalized	60 days after interim payment	100	75	72
External transfers completed	180 days from receipt of completed application	100	100	60
Member Annual Statements produced	end of first quarter	75	75	0
	end of second quarter	100	99	47
Employer satisfaction survey results	very satisfied	60	33	28
	satisfied	40	57	60

The 2000 employer survey conducted by APA in early 2001 showed an overall level of satisfaction of 33% very satisfied and 57% satisfied, compared to 24% very satisfied and 58% satisfied responses in 1999. It should be noted that responses by government departments are not included.

Communications

In 2000, APA worked with the Board towards adapting the communications plan to the Board's 2001-2003 business plan.

A new MEPP Member Handbook was produced during the year and posted on the APA Web site (www.apaco.ab.ca). The MEPP section of the APA Web site also features annual reports, a mid-2000 investment summary, and a notice to Plan members and a Question and Answer section regarding the changes in contribution rates announced in August, 2000.

During the year, APA provided a total of 57 employee seminars and threee employer workshops with information for MEPP and Public Service Pension Plan members and employers.

Looking Forward

Investment Outlook

As the new millennium begins, the first quarter investment results are expected to be weak, with recovery in the second half of the year. With the federal regulatory authorities gradually easing interest rates in Canada, the United States, United Kingdom, Japan, Australia and Scandinavia, it is expected that the increased liquidity will encourage world economies after a lag of about six months. The European Central Bank has yet to act.

The Canadian and US economies are expected to receive a boost if recently announced tax reductions are implemented, especially if inflation stays close to the projected 3% level.

Board's 2001 Objectives and Strategies

APEX Project

With the APEX Project now approved by the APA Corporate Board, Plan members can look forward to more secure and improved pension services in the future. The "state-of-the-art" system is expected to provide efficiencies in the delivery of services to members at a reasonable cost.

The Board supports APA in this very needed endeavour and will be monitoring the progress to ensure the project's successful implementation.

Governance

One of the Board's key initiatives for 2001 is to continue to refine its governance processes by conducting a self-assessment.

Annual Report Production

The Board has made every effort to have the 2000 annual report produced by the end of the first quarter of 2001. The Board's actuary completed the extrapolation of liabilities in mid-February, enabling the Board to approve the 2000 financial statements and the balance of the Report in March.

Web site

It is expected that Web sites will become increasingly important for pension plans in the years to come. The Board requested APA to develop a Web site for the Plan, which would be available for users by mid-2001. The site will contain pension estimators as well as an abundance of background information on the Plan. The site will contain extensive information, and interactive features such as survey and feedback vehicles. Web technology will also be used in the coming years for pension administration operations.

Advisory Role for SRP

In early 2001, the Board accepted the Provincial Treasurer's offer to act in an advisory capacity with respect to the Supplementary Retirement Plan.

Member Survey

The Board has requested that APA conduct a member survey via an electronic distribution system. A note will be circulated to MEPP members with a direct link to a survey on the APA Web site where members can respond to the survey and provide additional feedback. The privacy of the respondents will be protected.

Aging of Plan Members

Due to aging of Plan members (average of 47.8 years in 2000), the Board will have its actuary assess the impact of aging of members and recent retirement experience. The study will include an assessment of the expected impact on funding and contribution rates over the next 10 years.

Defined Benefit Plans

The demographics of the baby boom generation approaching retirement are expected to result in increasing demand for pension administration transactions. There is demand for change among plans that have recently eliminated their unfunded liability. As a result, customer expectations have increased.

It is projected that defined benefit pension plans are not likely to decline in the public sector.

Management Employees Pension Plan

MEPP

Audited Financial Statements

Management's Responsibility for Financial Reporting

The financial statements and information in the 2000 Annual Report are the responsibility of the Provincial Treasurer and Alberta Pensions Administration Corporation and have been approved by management and the Board.

The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgements. Financial information presented in the 2000 Annual Report that relates to the operations and financial position of the Management Employees Pension Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, both the Provincial Treasurer, acting in the capacity of investment manager, and Alberta Pensions Administration Corporation, acting in the capacity of pension administrator, maintain a system of internal accounting controls comprising written policies, standards and procedures, and a formal authorization structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments, and financial statements. His examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and other procedures that allow him to report on the fairness of the financial statements prepared by management.

Peter Kruselnicki, P.Eng.
Deputy Provincial Treasurer

George Buse
Chief Operating Officer
Alberta Pensions Administration Corporation

MEPP Auditor's Report

To the Provincial Treasurer

I have audited the statement of net assets available for benefits and accrued benefits of the Management Employees Pension Plan as at December 31, 2000 and the statements of changes in net assets available for benefits, changes in accrued benefits and changes in actuarial surplus for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Peter Valentine
FCA
Auditor General

Edmonton, Alberta
March 2, 2001

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2000

($ thousands)

	2000	1999
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 1,551,155	$ 1,446,515
Accrued investment income	344	281
Due from Alberta Treasury Branches	699	-
Contributions receivable (Note 6)	3,275	2,953
	1,555,473	1,449,749
Liabilities		
Accounts Payable (Note 7)	70	5,355
Net assets available for benefits	1,555,403	1,444,394
Asset fluctuation reserve (Note 2 (c))	(66,200)	(86,700)
Actuarial value of net assets available for benefits	1,489,203	1,357,694
Accrued Benefits (Note 11)		
Actuarial value of accrued benefits	1,384,545	1,311,675
Actuarial surplus	**$ 104,658**	**$ 46,019**

See accompanying notes and schedules.

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2000

($ thousands)

	2000	1999
Increase in assets		
Investment income (Note 8)	$ 117,078	$ 206,210
Contributions (Note 1(b))		
Current and past service		
Employees	16,667	13,681
Employers	22,316	15,777
Pre-1992 unfunded liability		
Employees	-	1,475
Employers	-	5,403
Transfers from other plans	66	1
	39,049	36,337
Total increase in assets	156,127	242,547
Decrease in assets		
Pension benefits	43,160	38,232
Refunds to members	1,415	1,554
Transfer (from) to Alberta Treasury Branches (Note 9)	(421)	66,279
Transfer to other plans	244	-
Administration expenses (Note 10)	720	796
Total decrease in assets	45,118	106,861
Increase in net assets for the year	111,009	135,686
Net assets available for benefits at beginning of year	1,444,394	1,308,708
Net assets available for benefits at end of year	**$ 1,555,403**	**$ 1,444,394**

See accompanying notes and schedules.

Statement of Changes in Accrued Benefits

For the year ended December 31, 2000

($ thousands)

	2000	1999
Increase in accrued benefits		
Interest accrued on benefits	$ 94,842	$ 93,814
Benefits earned	37,800	32,900
Net experience losses (gains)*	(15,374)	11,237
Changes in actuarial assumptions*	-	20,761
Increase in accrued benefits	117,268	158,712
Decrease in accrued benefits		
Benefits paid	44,819	40,286
Transfer (from) to Alberta Treasury Branches (Note 9)	(421)	57,604
Decrease in accrued benefits	44,398	97,890
Net increase in accrued benefits	72,870	60,822
Accrued benefits at beginning of year	1,311,675	1,250,853
Accrued benefits at end of year (Note 11)	**$ 1,384,545**	**$ 1,311,675**

** An extrapolation was performed at December 31, 2000 and an actuarial valuation was carried out at December 31, 1999.*

See accompanying notes and schedules.

Statement of Changes in Actuarial Surplus

For the year ended December 31, 2000

($ thousands)

	2000	1999
Actuarial surplus at beginning of year	$ 46,019	$ 4,355
Increase in net assets available for benefits	111,009	135,686
Net decrease (increase) in asset fluctuation reserve	20,500	(33,200)
Net increase in accrued benefits	(72,870)	(60,822)
Actuarial surplus at end of year	**$ 104,658**	**$ 46,019**

See accompanying notes and schedules.

Notes to the Financial Statements for 2000

December 31, 2000

Note 1
Summary Description of the Plan

The following description of the Management Employees Pension Plan is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-30.7, Statutes of Alberta 1993 and Alberta Regulation 367/93, as amended.

(a) General

The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992 and have not withdrawn from the Plan since that date continue as members of this Plan.

(b) Funding

Current service costs are funded by employee and employer contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect in 2000 are 7.75% (1999: 7%) of pensionable salary for employees and 10.75% (1999: 8%) for employers. The rates were reviewed in 2000 by the Provincial Treasurer and are to be reviewed again at least once every three years based on recommendations of the Plan's actuary.

As there was a surplus at December 31, 1999 in respect of benefits accrued for pre-1992 service, additional contributions required to liquidate the pre-1992 unfunded liability ceased effective January 1, 2000.

(c) Retirement Benefits

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at $86,111 per year by the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60 or age 55 and the sum of their age and service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of service, a surviving spouse may choose to receive a survivor pension. For a beneficiary other than a spouse, or where service is less than five years, a lump sum payment must be chosen.

(f) Termination Benefits

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a refund or a deferred pension. A refund is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. Refunds are subject to the Plan's lock-in provisions.

(g) Guarantee

The Province of Alberta guarantees payment of all benefits arising from service before 1994.

(h) Prior Service and Transfers

All prior service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to at least 60% of the increase in the Alberta Consumer Price Index.

(j) Income Taxes

The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887.

Note 2
Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

The majority of Plan investments are held in pooled investment funds administered by Alberta Treasury. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The Plan's respective percentage ownership of pooled investment funds at December 31 was as follows:

	% Ownership	
	2000	1999
Canadian Dollar Public Bond Pool	5.6	5.7
Canadian Pooled Equities Fund	7.2	7.7
Canadian Equity Index (excluding Nortel) Pooled Fund	68.0	-
Domestic Passive Equity Pooled Fund	0.2	8.1
External Managers Fund	5.1	5.5
EAFE Structured Equity Pooled Fund	6.4	6.9
Floating Rate Note Pool	0.1	0.4
Private Equity Pool	7.6	7.6
Private Mortgage Pool	5.8	5.9
US Passive Equity Pooled Fund	3.2	6.4
United States Pooled Equities Fund	6.3	6.3
US Structured Equity Pooled Fund	-	7.0

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs.

(i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by management.

(iii) The fair value of private equities is estimated by Alberta Treasury.

(iv) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Actuarial Value of Net Assets Available for Benefits

To moderate the effects of market volatility on investment value, annual net realized and unrealized gains and losses excluding those arising from derivative transactions are amortized equally over three years commencing at the beginning of the current year.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

(f) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps are valued based on discounted cash flows using current market yields.

(iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

(iv) The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

Note 3
Investments

Investments are summarized as follows:

	2000		1999	
	($ thousands)	%	($ thousands)	%
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 33,016	2.1	$ 3,335	0.2
Fixed Income Securities				
Canadian Dollar Public Bond Pool (b) (Schedule A)	495,174	31.9	459,205	31.8
Private Mortgage Pool (c)	56,485	3.7	59,826	4.1
Real Rate of Return Bonds (d)	65,487	4.2	40,655	2.8
Floating Rate Note Pool (e)	2,795	0.2	10,211	0.7
Total deposit and fixed income securities	652,957	42.1	573,232	39.6
Canadian Equities				
Canadian Pooled Equities Fund (f) (Schedule B)	177,021	11.4	203,823	14.1
Canadian Equity Index (excluding Nortel) Pooled Fund (g) (Schedule C)	201,280	13.0	-	-
Domestic Passive Equity Pooled Fund	5,020	0.3	203,655	14.1
External Managers Fund (Canadian) (h) (Schedule D)	79,866	5.2	81,587	5.6
Private Equity Pool (i)	6,061	0.4	5,863	0.4
	469,248	30.3	494,928	34.2
Foreign Equities				
External Managers Fund (International) (h) (Schedule D)	187,968	12.1	158,776	11.0
External Managers Fund (United States) (h) (Schedule D)	178,914	11.5	84,067	5.8
EAFE Structured Equity Pooled Fund (j)	29,633	1.9	67,657	4.7
US Passive Equity Pooled Fund (k)	32,201	2.1	45,462	3.2
United States Pooled Equities Fund	234	-	413	-
US Structured Equity Pooled Fund	-	-	21,980	1.5
	428,950	27.6	378,355	26.2
Total equities	898,198	57.9	873,283	60.4
Total investments	**$ 1,551,155**	**100.0**	**$ 1,446,515**	**100.0**

(a) The Consolidated Cash Investment Trust Fund is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high-quality Canadian fixed income instruments and related derivatives (see Schedule A). Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c)The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the Pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage. As at December 31, 2000, mortgages held by the Pool have an average effective market yield of 7.27% per annum (1999: 7.95%) and the following term structure based on principal amount:

Under 1 year: 8% (1999: 8%); 1 to 5 years: 27% (1999: 28%); 5 to 10 years: 28% (1999: 29%); 10 to 20 years: 23% (1999: 22%); and over 20 years: 14% (1999: 13%).

Note 3 Investments continued...

(d) Real Rate of Return Bonds are issued or guaranteed by the Government of Canada, bear interest at a fixed rate adjusted for inflation, and have terms to maturity of over 20 years.

(e) The Floating Rate Note Pool is managed with the objective of generating floating rate cash flows needed for the swap obligations of participants with structured investments. Through the use of interest rate swaps, the Pool provides investment opportunities in high quality floating rate instruments with remaining term to maturity of ten years or less.

(f) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the Toronto Stock Exchange (TSE) 300 Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(g) The Canadian Equity Index (excluding Nortel) Pooled Fund is passively managed with the objective of providing investment returns comparable to the Pooled Fund's benchmark which is the total return of the (TSE) 300 Index excluding Nortel Networks Corp. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the benchmark (see Schedule B). The Pooled Fund's investment in units of the Floating Rate Note Pool (see Note 3e) was used as the underlying securities to support the equity index swaps of the Pool.

(h) The External Managers Fund is comprised of numerous portfolios of publicly traded equities, which are managed by numerous external managers with expertise in Canadian and approved foreign equity markets. The international equity pools consist of investments in non-North American investments in Europe, Australia, the Far East, Pacific Basin and Emerging Markets. The objective of the Fund is to provide investment returns higher than the total return of the applicable Morgan Stanley Capital International, Standard & Poor and Toronto Stock Exchange indices over a four-year period. Risk is reduced through manager, style and market diversification.

(i) The Private Equity Pool is in the process of orderly liquidation.

(j) The EAFE (Europe, Australia and Far East) Structured Equity Pooled Fund is managed with the objective of providing investment returns comparable to the total return of the Morgan Stanley Capital International EAFE Index. The Pooled Fund provides exposure to foreign markets in Europe, Australia and Far East through the use of structured investments such as foreign equity index swaps. The Pooled Fund's investment in units of the Floating Rate Note Pool (see Note 3e) was used as the underlying securities to support the equity index swaps of the Pool.

(k) The US Passive Equity Pooled Fund is managed with the objective of attaining investment returns comparable to Standard & Poor's (S & P) 500 Total Return Index over a four-year period. The portfolio is comprised of publicly traded equities in the United States similar in weights to the S & P 500 Index. To enhance investment returns with no substantial increase in risks, the Pooled Fund also invests in futures, swaps and other structured investments. The Pooled Fund's investment in units of the Floating Rate Note pool (see Note 3e) was used as the underlying securities to support the equity index swaps of the Pool.

Note 4
Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a benchmark policy asset mix of 45% fixed income instruments and 55% equities, changed since the year end to 40% fixed income instruments and 60% equities. Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

Note 5
Derivatives Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative

Note 5 Derivative Contracts continued...

contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Stock futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2000.

	2000		1999	
	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	($ thousands)			
Equity index swap contracts	$ 91,273	$ 2,143	$ 219,345	$ 16,276
Bond index swap contracts	39,504	248	78,123	(520)
Interest rate swap contracts	28,084	(573)	58,544	(869)
Forward foreign exchange contracts	26,798	12	16,636	52
Equity index futures contracts	209	1	318	9
	185,868	$ 1,831	372,966	$ 14,948
Cross-currency interest rate swap contracts (b)	91,670		132,120	
	$ 277,538		**$ 505,086**	

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

(b) As at December 31, 2000, the combined value of cross-currency interest rate swaps and underlying securities amounted to $92,444,000 (1999: $131,870,000).

All derivative contracts mature within one year except for bond index swaps, cross-currency swaps and interest rate swaps with a notional amount of $71,708,000 that mature between 1 and 3 years and $41,050,000 that mature over 3 years.

Note 6
Contributions Receivable

	2000	1999
	($ thousands)	
Employees	$ 1,358	$ 1,216
Employers	1,917	1,737
	$ 3,275	**$ 2,953**

Note 7
Accounts Payable

	2000	1999
	($ thousands)	
Benefits	$ 26	$ 32
Refunds	73	221
Administration Expenses	(29)	(16)
Payable to Alberta Treasury Branches	-	5,117
Payable to Public Service Management (Closed Membership) Pension Plan	-	1
	$ 70	**$5,355**

Note 8
Investment Income

Investment income is comprised of the following:

	2000	1999
	($ thousands)	
Net realized and unrealized gains on investments	$ 44,529	$ 109,256
Interest income	49,867	48,010
Derivative income	14,586	41,501
Dividend income	9,188	8,514
Securities lending income	171	171
Pooled funds management and associated custodial fees	(1,263)	(1,242)
	$ 117,078	**$ 206,210**

The following is a summary of the Plan's proportionate share of investment income from pooled funds and directly held investments.

	2000	1999
	($ thousands)	
Deposits and Fixed Income Securities:		
Deposit in the Consolidate Cash Investment Trust Fund	$ 693	$ 1,010
Canadian Dollar Public Bond Pool	52,443	(5,547)
Private Mortgage Pool	6,285	86
Real Rate of Return Bonds	10,405	3,625
Floating Rate Note Pool	498	23
Private Bond Pool	-	4
	70,324	**(799)**
Equities		
Canadian Equities:		
Canadian Pooled Equities Fund	11,316	52,561
Canadian Equity Index (excluding Nortel) Pooled Fund	12,459	-
Domestic Passive Equity Pooled Fund	47,022	50,369
External Managers Fund (Canadian)	11,913	10,288
Private Equity Pool	1,725	932
Miscellaneous	572	(13)
	85,007	**114,137**
Foreign Equities:		
External Managers Fund (International)	(27,957)	49,754
External Managers Fund (United States)	(7,776)	11,051
EAFE Structured Equity Pooled Fund	(2,112)	12,632
US Passive Equity Pooled Fund	(509)	5,484
United States Pooled Equities Fund	369	(516)
US Structured Equity Pooled Fund	(268)	1,696
Global Structured Equity Pooled Fund	-	12,771
	(38,253)	92,872
	46,754	207,009
	$ 117,078	**$ 206,210**

Note 9
Transfer to Alberta Treasury Branches

During 1999, the withdrawal of all active members of Alberta Treasury Branches (ATB) from the Management Employees Pension Plan (MEPP) was approved effective December 31, 1998. Accordingly, the Plan's actuary determined that assets totalling $57,604,000 and $2,252,000 were required to be transferred to ATB and the Public Service Management (Closed Membership) Pension Plan on behalf of ATB respectively. These amounts, plus adjustments for the market return of MEPP from December 31, 1998 to the date of transfer in 1999 and interest on the contributions made by or in respect of transferred members during 1999, totalled $66,279,000.

During 2000, due to data changes arising from ATB's review of data used in the original calculation and adjustments relating to combined pensionable service of active ATB members, the Plan's actuary determined that assets required to be transferred to ATB in the original calculation were overstated by $572,000. This amount, plus adjustments for administration expenses and the market return of MEPP from December 31, 1998 to December 31, 2000, less interest paid to ATB on finalization of the original transfer, totalled $421,000.

Note 10
Administration Expenses

	2000	1999
	($ thousands)	
General administration costs	$ 375	$ 538
Investment management costs	233	215
Actuarial fees	112	43
	$ 720	**$ 796**

General administration costs, including Plan specific costs of $38,000 (1999: $44,000) were paid to the Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Treasury and do not include pooled funds management and associated custodial fees (see Note 8), which have been deducted in arriving at investment income.

In 2000, total administration costs of $720,000 amounted to $134 per member (1999: $139 per member). The $5 per member cost net decrease in 2000 is attributed to the following factors: decrease in business process reengineering cost $24, increase in plan specific cost $13 and increase in investment management cost $6.

Note 11
Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 1999 by Aon Consulting Inc. and was then extrapolated to December 31, 2000. The 1999 valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Management Employees Pension Board approved this best estimate.

The major assumptions used in the actuarial valuation and extrapolation were:

	December 31	
	2000	1999
	Extrapolation	Valuation
	%	%
Asset real rate of return	4.25	4.25
Inflation rate	3.0	3.0
Investment rate of return	7.25	7.25
Salary escalation rate*	3.0	3.0
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

** Excludes merit and promotion.*

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

Note 11 Accrued Benefits
(b) Sensitivity of Changes in Major Assumptions continued...

The following is a summary of the sensitivities of the Plan's surplus and current service cost to changes in assumptions used in actuarial extrapolations at December 31, 2000:

	Sensitivities		
	Changes in Assumptions %	Increase (Decrease) in Plan Surplus ($ millions)	Increase in Current Service Cost as % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ (101)	1.3%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	(26)	0.6%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	(222)	3.7%

** The current service cost as % of pensionable earnings as determined by the December 31, 1999 valuation is 18.7%.*

Note 12
Budget Information

The accrued benefits are based on the Management Employees Pension Board's best estimates of future events. Differences between actual results and the Board's expectations are disclosed as net experience gains and losses in the Statement of Changes in Accrued Benefits. Accordingly, a budget is not included in these financial statements.

Note 13
Comparative Figures

Comparative figures have been restated to be consistent with the 2000 presentation.

Note 14
Responsibilty for Financial Statements

These financial statements were prepared by management and approved by the Management Employees Pension Board.

Schedule A
Schedule of Investments in Canadian Dollar Public Bond Pool (a)

December 31, 2000

($ thousands)

	Plan's Share 2000	Plan's Share 1999
Deposit in the Consolidated Cash Investment Trust Fund	$ 8,648	$ 3,251
Public Fixed Income Securities		
Government of Canada direct and guaranteed	127,631	123,000
Provincial:		
Alberta, direct and guaranteed	1,663	2,044
Other, direct and guaranteed	105,613	68,209
Municipal	6,898	5,126
Corporate	177,687	192,838
Private Fixed Income Securities		
Corporate	60,670	59,933
Total deposit and fixed income securities	488,810	454,401
Receivable from sale of investments and accrued investment income	6,525	5,675
Liabilities for investment purchases	(161)	(871)
	6,364	4,804
	$ 495,174	**$ 459,205**

(a) Fixed income securities held as at December 31, 2000 had an average effective market yield of 6.07% per annum (1999: 6.47% per annum). The following term structure of these securities as at December 31, 2000 is based on principal amount.

	2000 %	1999 %
under 1 year	6	11
1 to 5 years	37	34
5 to 10 years	28	29
10 to 20 years	15	17
over 20 years	14	9
	100	**100**

Schedule B
Schedule of Investments in Canadian Pooled Equities Fund
December 31, 2000
($ thousands)

	Plan's Share	
	2000	**1999**
Deposit in the Consolidated Cash Investment Trust Fund	$ 217	$ 429
Canadian Public Equities (a):		
Common shares and rights:		
Communications and media	6,858	16,528
Conglomerates	7,125	9,680
Consumer products	5,646	6,523
Financial services	35,720	27,022
Gold and precious minerals	3,857	6,930
Industrial products	63,059	62,281
Merchandising	1,657	3,394
Metals and minerals	6,950	7,815
Oil and gas	18,434	18,250
Paper and forest products	5,739	4,016
Pipelines	1,571	2,717
Real estate and construction	1,795	5,386
Transportation and environmental services	200	3,679
Utilities	16,093	27,866
	174,704	202,087
Passive index	661	1,238
	175,365	203,325
Receivable from sale of investments and accrued investment income	1,768	702
Liabilities for investment purchases	(329)	(633)
	1,439	69
	$ 177,021	**$ 203,823**

(a) The industrial classifications are those used by the Toronto Stock Exchange.

Schedule C
Schedule of Investments in Canadian Equity Index (excluding Nortel) Pooled Fund

December 31, 2000

($ thousands)

	Plan's Share
Deposit in the Consolidated Cash Investment Trust Fund	$ 3,907
Floating Rate Note Pool (a)	22,300
	26,207
Canadian Public Equities (b):	
Common shares and rights:	
Communications and media	10,212
Conglomerates	7,487
Consumer products	8,648
Financial services	29,708
Gold and precious minerals	6,823
Industrial products	34,473
Merchandising	6,138
Metals and minerals	8,337
Oil and gas	26,099
Paper and forest products	3,749
Pipelines	5,817
Real estate and construction	2,009
Transportation and environmental services	3,437
Utilities	18,735
	171,672
Receivable from sale of investments and accrued investment income	3,584
Liabilities for investment purchases	(183)
	3,401
	$ 201,280

(a) The Pooled Fund's investment in the Floating Rate Note Pool was used as underlying securities to support equity index swaps of the Pooled Fund.

(b) The industrial classifications are those used by the Toronto Stock Exchange.

Schedule D
Schedule of Investments in External Managers Fund
December 31, 2000
($ thousands)

	Number of External Managers		Plan's Share	
	2000	1999	2000	1999
Canadian Public Equity Pools				
Large Cap	3	3	$ 56,257	$ 56,015
Small Cap	4	5	23,609	25,572
	7	8	79,866	81,587
International Public Equity Pools				
Multi Region	4	3	88,972	36,658
Europe	3	3	66,026	62,684
Pacific Basin	2	2	32,966	54,328
Emerging markets	1	2	4	5,106
	10	10	187,968	158,776
United States Public Equity Pools	6	5	178,914	84,067
	23	23	**$ 446,748**	**$ 324,430**

Supplementary Retirement Plan for Public Service Managers

Note: The Government of Alberta was responsible for the Supplementary Retirement Plan (SRP) for Public Service Managers in 1999 and 2000. These financials are provided for the information of MEPP members who participate in the SRP.

Audited Financial Statements

Supplementary Retirement Plan Auditor's Report

To the Minister of Finance

I have audited the statement of net assets available for benefits and accrued benefits of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2000 and as at December 31, 1999 and the statement of changes in net assets available for benefits for the year and for the six-month period respectively then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2000 and as at December 31, 1999 and the results of its operations and the changes in its financial position for the year and for the six-month period respectively then ended in accordance with Canadian generally accepted accounting principles.

Peter Valentine
Auditor General, FCA

Edmonton, Alberta
March 29, 2001

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2000

($ thousands)

	2000	1999
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 3)	$ 450	$ 171
Accounts receivable (Note 4)	563	152
	1,013	323
Liabilities		
Accounts payable	134	150
Net RCA assets (Note 1(j))	879	173
Due from the SRP Reserve Fund (Note 5)	2,986	768
Net assets available for benefits	3,865	941
Accrued Benefits		
Actuarial value of accrued benefits (Note 6)	3,685	908
Actuarial surplus	**$ 180**	**$ 33**

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2000

($ thousands)

	Year Ended December 31, 2000	Six Months Ended December 31, 1999
Increase in assets		
Contributions		
Employees	$ 429	$ 121
Employers	429	121
Investment income	14	1
Total increase in assets	872	243
Decrease in assets		
Administration expenses (Note 7)	166	70
Increase in net RCA assets (Note 1(j))	706	173
Increase in amounts due from the SRP Reserve Fund (Note 5)	2,218	768
Increase in net assets for the period	2,924	941
Net assets available for benefits at beginning of period	941	-
Net assets available for benefits at end of period	**$ 3,865**	**$ 941**

The accompanying notes are part of these financial statements.

Note 1
Summary Description of the Plan

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 93 of the *Financial Administration Act,* and the *Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/99 and 04/99), as amended.

(a) General

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds $86,111, the maximum yearly pensionable earnings allowed by the federal *Income Tax Act.* The Plan is supplementary to MEPP. Services under MEPP are used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both plans and the pension is payable in the same form. Members of MEPP who have attained 35 years of combined pensionable service are not eligible to participate in the Plan.

(b) Funding

Current service costs are funded by employee and employer contributions which together with investment earnings, income tax refunds and transfers from the SRP Reserve Fund (see Note 5), are expected to provide for all benefits payable under the Plan. The contribution rates for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2000 are 7.75% of pensionable salary in excess of $86,111 for eligible employees and 7.75% for designated employers. The rates are to be reviewed at least once every three years by the Minister of Finance based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of $86,111 for each year of pensionable service after July 1, 1999, based on the average salary of the highest five consecutive years.

Members are entitled to an unreduced pension on service if they retire with at least five years of combined pensionable service and have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of combined pensionable service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of combined pensionable service.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of combined pensionable service, a surviving spouse may choose to receive a survivor pension. For a beneficiary other than a spouse, or where combined pensionable service is less than five years, a lump sum payment must be chosen.

(f) Termination Benefits

Members who terminate with fewer than five years of combined pensionable service receive a refund of their contributions plus interest.

Members who terminate with more than five years of combined pensionable service and are not immediately entitled to a pension may apply for a refund or a deferred pension. Refunds are based on commuted value plus employee contribution excess, if any, and are subject to the Plan's lock-in provisions.

(g) Guarantee

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to at least 60% of the increase in the Alberta Consumer Price Index.

(i) Plan Surplus

The Government has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Government.

(j) Income Taxes

The Plan is a Retirement Compensation Arrangement (RCA) account as defined in the *Income Tax Act*. Income taxes are payable on any cash contributions from eligible employees and designated employers at the rate of 50%. Income taxes are recoverable at the same rate when pension benefit payments are made out of the Plan to retired plan members, or when administration expenses exceed investment income.

Note 2
Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. Short-term securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Note 3
Cash and Cash Equivalents

Cash and cash equivalents consist of a demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

Note 4
Accounts Receivable

	2000	1999
	($ thousands)	
Income taxes recoverable	552	$ 122
Contributions receivable	11	30
	$ 563	**$ 152**

Note 5
Supplementary Retirement Plan Reserve Fund (SRP Reserve Fund)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1(g)). To provide for their future obligations to the Plan, designated employers contribute to the SRP Reserve Fund at rates determined by the Plan's actuary. The rate in effect at December 31, 2000 is 42.5% of pensionable salary of eligible employees that are in excess of $86,111 (or approximately 5.72% of the total earnings of SRP participants).

The SRP Reserve Fund is a regulated fund established and administered by the Government to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan. As at December 31, 2000, the SRP Reserve Fund had assets totalling $2,986,000 (1999: $768,000).

Note 6
Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2000 by Johnson Incorporated. The valuation was determined using the projected benefit method prorated on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Plan's management approved this best estimate.

The major assumptions used in the actuarial valuation were:

	December 31, 2000 Valuation	June 30, 1999 Valuation
	%	%
Asset real rate of return	4.25	4.00
Inflation rate	3.00	3.25
Investment rate of return	7.25	7.25
Salary escalation rate*	4.25	3.75
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

** Includes merit and promotion.*

The following statement shows the principal components of the change in the value of accrued benefits.

	Year Ended December 31, 2000	Six Months Ended December 31,1999
	($ thousands)	
Actuarial value of accrued pension benefits at beginning of period	$ 908	$ -
Interest accrued on benefits	66	-
Benefits earned	2,147	978
Net experience loss and changes in actuarial assumptions	730	-
Administration expenses	(166)	(70)
Actuarial value of accrued pension benefits at end of period	**$ 3,685**	**$ 908**

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's surplus and current service cost to changes in assumptions used in the actuarial valuation at December 31, 2000:

Note 6 Accrued Benefits
(b) Sensitivity of Changes in Major Assumptions continued...

	Changes in Assumptions %	Sensitivities Decrease in Plan Surplus ($ millions)	Increase in Current Service Cost as % of Pensionable Earnings in excess of $86,111 *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ (0.28)	5.2%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	(0.56)	10.2%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	(0.45)	8.2%

* *The current service cost as % of pensionable earnings in excess of $86,111 as determined by the December 31, 2000 valuation was 55.3% (or approximately 7.45% of the total earnings of SRP participants).*

Note 7
Administration Expenses

Administration costs were paid to the Alberta Pensions Administration Corporation on a cost-recovery basis. Total administration costs of $166,000 amounted to $350 per member.

Note 8
Budget Information

The accrued benefits are based on management's best estimates of future events. Differences, if any, between actual results and management's expectations are disclosed as net experience gains and losses in Note 6(a). Accordingly, a budget is not included in these financial statements.

Note 9
Responsibility for Financial Statements

These financial statements were approved by management.

Glossary

Terms

Active Management Strategies
These strategies have two forms — security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the TSE 300 Index for Canadian stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

Active Member
A member who is making contributions or, if not making contributions, is on non-contributory leave for up to three years, on approved disability leave, or at the point of maximum pensionable service (35 years).

Asset Mix
The percentage of a plan's assets allocated to the major asset classes (for example, 45% fixed income and 55% equities).

Basis Point
A measurement of fluctuation in the current yield equal to 1/100 of 1%.

Benchmark
A standard against which others are measured. For the purposes of this report, benchmarks are established income indices (listed in percentages) used to measure the health of the Fund's investment returns.

Bond
A promissory note issued by a company or government, which bears a fixed maturity date and rate of return.

Combined Pensionable Service
Pensionable service in both MEPP and in the Public Service Pension Plan or the Universities Academic Pension Plan is combined to determine the member's vesting status or benefits when retiring or leaving the Plan.

Deferred Member
A member who is no longer employed by a Plan employer, has left his/her contributions in the Plan and has yet to choose a pension option.

Emerging Markets
An economy in the earlier stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece and Brazil.

Equity
Stock; the ownership interest in a company.

External Manager
A third-party firm contracted to provide investment management services.

Guaranteed Terms – Pension Option
A guaranteed pension is paid for the member's lifetime. If the member dies before the end of the guaranteed period, payments will continue to the designated beneficiary(ies) or estate for the rest of that period.

Interest Rate Sensitive Equity
Equity whose return is expected to react to changes in interest rates.

Joint Life – Pension Option
Pension is payable for the joint lives of the member and the member's nominee (usually the spouse). Upon the death of the member or the nominee, payments continue to the survivor for his or her life. Payments to the survivor may be lower than the original payment, depending on the member's choice at retirement.

Large Cap
Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

Manager Structure
Manager structure refers to the number and mandates given to a plan's investment managers. Manager structures can be built around balanced fund mandates where the manager invests across multiple asset classes (Canadian stocks, Canadian bonds, U.S. and International stocks) or specialty mandates where the manager invests in a single asset class. In the case of a specialty mandate the focus can be very specific such as investing in only Canadian small capitalized companies.

Money Market Securities
Fixed income securities that mature in less than one year. Also known as "cash equivalents" since their marketability and characteristics provide easy liquidity access to ready cash, as needed.

Normal – Pension Option
Pension is paid for member's lifetime. If the member dies before the member's spouse, a reduced pension is paid to the spouse for as long as he or she lives.

Passive Equity
Equity bought as Toronto Index Participation Units (TIPS), allowing a fund to buy into the top 35 companies on the Toronto Stock Exchange.

Passive Strategies
These strategies involve investing to replicate the performance of a given market index such as the TSE 300 for Canadian stocks or managing asset class exposure to match the performance of an established policy asset mix such as 50% TSE 300 Index and 50% Scotia Capital Markets Bond Universe Index.

Pensioner
A member, surviving spouse or beneficiary who is receiving a pension from the Plan.

Policy Asset Mix
The distribution of funds among various types of assets broadly grouped into fixed income and equity related instruments that are specified in the Board's investment policy and offer the highest probability of consistently achieving investment objectives within the confines of a predetermined level of risk.

Policy Benchmark
A benchmark return for the Fund, which is composed from the long-term asset mix policy and the benchmark indices for each major asset class.

Product
An investment vehicle, such as bonds, cash, money market securities, equities (both domestic and foreign), pooled funds, index funds, etc., offered by an investment manager for the purpose of investing funds to achieve investment goals set out in an investment policy.

Public Service Management (Closed Membership) Plan
This plan, established in Schedule 6 of the *Public Sector Pension Plans Act*, Chapter P-30.7, RSA, provides retirement benefits for those persons who were members of the Public Service Management Pension Plan prior to 1994 and were retired or eligible to receive a pension from that Plan.

Rate of Return
The real rate of return is the return achieved by an asset after adjustments for inflation.

Real Return Bond
A fixed income investment product (a bond) whose return is linked to the real interest rate to generate a specified real rate of return. Related terms: The real interest rate is the nominal (set) interest rate minus inflation. The real rate of return is the return achieved by an asset after adjustments for inflation.

Single Life – Pension Option
Pension is paid for member's lifetime but no payments are made to a beneficiary or estate after the pensioner's death. This option is only available when there is no spouse or the spouse waived rights.

Small Cap
Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

Statement of Investment Policies and Goals
A policy document set by the Board to establish the asset mix of the Fund, the manner by which the Investment Management Division of Alberta Treasury may invest assets and the specific holding limits for each type of security.

Swap (structured investments)
A contract between two parties to pay the other party the return on an underlying investment.

T-Bill
Short-term government security.

Time-weighted Return
A series of dollar-weighted rates of return designed to reduce the impact of the cashflows on a fund's performance. Since the fund manager usually has little control over the timing of the cashflows, the time-weighted return is used to measure the performance of the fund managers.

Total Return
Measures income (dividend, cash, interest and accrued interest) and capital appreciation (or capital depreciation).

Unfunded Liability
An unfunded liability exists when the actuarial valuation determines that the Fund's accrued liabilities exceed the net assets available for the payment of benefits.

Indices

Consumer Price Index (CPI)
Measures the relative prices at various times of a selected group of goods and services which typify those bought by urban families.

Morgan Stanley Capital International World Index
Measures the total return attributable to the largest capitalized companies on the world's major stock exchanges. Maintained by Morgan Stanley, the index is compiled and reported monthly in local and common currencies.

Russell Canadian Property Index
Measures the total return attributable to Canadian commercial real estate. Maintained by Frank Russell, the index is compiled and reported every three months.

Scotia Capital Markets Universe Bond Index
Measures the total return attributable to bonds. Maintained by ScotiaMcLeod and includes representative bond issues by issuer (Federal, Provincial, Municipal and Corporate) by quality (AAA, AA, A, and BBB) and term (short-, mid-, and long-).

Scotia Capital Markets 91-Day T-Bill Index
Measures the total return attributable to 91-Day T-Bills. Maintained by ScotiaMcLeod.

SEI Median Manager
A reference point for measuring Investment Management Division's performance. SEI Canada Financial Service Limited conducts surveys of balanced fund managers on a quarterly basis to create the SEI Universe. From this, SEI Canada determines the median (or middle-ranked) manager. Related Terms: SEI (Canada) Financial Services Limited is an independent firm that evaluates and reports on investment performance. A balanced fund is an investment portfolio with a mix of bonds, preferred stocks and common stocks designed to conserve the investor's initial principal, pay current income and achieve long-term growth.

Standard & Poor's 500 Index
Measures the total return attributable to the 500 largest capitalized companies on U.S. stock exchanges.

TSE 300 Index
Measures the total return attributable to the 300 largest capitalized companies traded on the Toronto Stock Exchange. Maintained by the Toronto Stock Exchange, the index is compiled and reported on a daily basis. The index's composition is adjusted annually.

Directory – 2001

Board Members

Employee Nominees

Theresa Ostrum, **Vice-Chair**
Gail Armitage
Bill Lenius

Government Nominees

Dianne Keefe, **Chair**
Fred Barth
Nancy Bochard

Public Service Commissioner Nominee

Shirley Howe (Non-voting)

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Administrator

Alberta Pensions Administration Corporation

Board Secretary

Ken Patterson
Alberta Pensions Administration Corporation

Fund Management

Investment Management Division
Alberta Treasury

Actuary

Aon Consulting Inc.

Auditor

Auditor General of Alberta

Seven-Year Plan Summary

as at December 31, 2000

	2000	1999	1998	1997	1996	1995	1994
				($ thousands)			
Change in net assets							
Income							
Investment income	117,078	206,210	105,296	132,257	164,541	131,520	(3,277)
Contributions							
Employees	16,667	13,681	15,175	14,116	14,107	13,840	14,076
Employers	22,316	15,777	17,000	15,321	15,519	16,810	20,188
Unfunded liability							
Employees	0	1,475	1,571	1,436	1,276	1,186	701
Employers	0	5,403	5,762	5,267	5,905	5,148	2,362
Transfers from other plans	66	1	34	24	273	753	3,598
Total Income	**156,127**	**242,547**	**144,838**	**168,421**	**201,621**	**169,257**	**37,648**
Expenditures							
Benefits paid	43,160	38,232	33,483	27,820	21,561	16,327	12,120
Refunds to members	1,415	1,554	2,651	2,680	1,935	1,968	1,814
Investment expenses	233	215	219	164	179	169	105
Transfers to Alberta Treasury Branches	(421)	0	0	0	0	0	0
Transfers to (from) other plans	244	66,279	0	83	462	952	618
Administration expenses	487	581	440	414	315	372	298
Total expenditures	**45,118**	**106,861**	**36,793**	**31,161**	**24,452**	**19,788**	**14,955**
Increase in net assets	**111,009**	**135,686**	**108,045**	**137,260**	**177,169**	**149,469**	**22,693**
Net Assets							
Investments							
Deposits in CCITF*	33,016	3,335	4,043	12,449	19,871	54,862	22,776
Fixed income securities	619,941	569,897	597,605	563,226	473,026	405,690	377,173
Equities - Canadian	469,248	494,928	365,032	354,951	322,071	207,025	169,816
Foreign	428,950	378,355	309,543	239,351	225,235	189,504	139,823
Real estate	0	0	29,629	27,889	20,207	18,521	18,183
Balanced funds	0	0	0	0	0	9,619	0
Total equities	898,198	873,283	704,204	622,191	567,513	424,669	327,822
Total Investments	**1,551,155**	**1,446,515**	**1,305,852**	**1,197,866**	**1,060,410**	**885,221**	**727,771**
Accrued investment income	344	281	213	396	384	993	6,723
Contributions receivable	3,974	2,953	3,112	2,579	2,889	608	5,767
Total Assets	**1,555,473**	**1,449,749**	**1,309,177**	**1,200,841**	**1,063,683**	**886,822**	**740,261**
Total Liabilities	(70)	(5,355)	(469)	(178)	(280)	(588)	(3,496)
Net Assets available for benefits	**1,555,403**	**1,444,394**	**1,308,708**	**1,200,663**	**1,063,403**	**886,234**	**736,765**
Asset fluctuation reserve	(66,200)	(86,700)	(53,500)	(41,500)	(84,100)	(42,097)	17,827
Actuarial value of net assets	1,489,203	1,357,694	1,255,208	1,159,163	979,303	844,137	754,592
Actuarial value of accrued benefits	1,384,545	1,311,675	1,250,853	1,165,653	1,065,853	960,753	876,753
Surplus (Deficiency)	**104,658**	**46,019**	**4,355**	**(6,490)**	**(86,550)**	**(116,616)**	**(122,161)**
Funded Ratio (%)	108	104	100	99	92	88	86
Performance (%)							
Long-term goal	7.25	7.25	7.50	7.50	7.50	8.00	8.00
Rate of return-nominal	8.2	16.0	8.8	12.3	18.3	17.7	0.0
Benchmark	7.0	13.4	11.2	13.4	17.0	17.3	(0.7)
Consumer Price Index	3.2	2.5	1.0	1.6	1.6	0.2	1.7
Real rate of return	5.0	13.5	7.8	10.7	16.7	17.5	(1.7)
Interest Rates (%)							
Bank of Canada	6.0	5.0	5.3	4.5	3.3	5.8	7.4
US Federal Reserve	6.5	5.5	4.5	5.5	5.2	5.5	5.5
Stock Market Indexes (%)							
TSE 300 ($ Cdn)	7.4	31.7	-1.6	15	28.4	14.6	-0.2
Dow Jones Industrial Index ($ US)	-4.7	27.0	18.0	24.8	28.6	36.5	5.0
S & P 500 ($ US)	-5.8	14.2	38.0	39.2	23.6	33.9	7.3
NASDAQ ($ US)	-39.1	85.9	40.1	22.1	23.0	40.9	n/a
Participants							
Active members	3,373	3,003	3,013	3,474	3,500	3,696	3,725
Deferred members	861	1,032	867	808	729	575	554
Retirees	1,329	1,183	1,048	893	718	549	398
Total	**5,563**	**5,218**	**4,928**	**5,175**	**4,947**	**4,820**	**4,677**
Average age of Active members (years)	47.8	48.1	48.2**	46.9	46.8	46.7	42.0
Contribution Rates (%)							
Employees	7.75	7.00	7.00	7.00	7.00	6.53	6.06
Employers	10.75	8.00	8.00	8.00	8.00	8.00	8.50
Deficit reduction	0.00	3.50	3.50	3.50	3.50	3.34	2.19

**Consolidated Cash Investment Trust Fund*

***Active members other than those with Alberta Treasury Branches.*

Notes

ISSN: 1208-0365
Published by the
Management Employees Pension Board
Edmonton, Alberta
March 2001

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